

§412.312

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the standard Federal rate by the following factors.

(1) *Update factor.* After FY 1992, CMS updates the standard Federal rate as follows:

(i) *FY 1993 through FY 1995.* For FY 1993 through FY 1995, the standard Federal rate is updated based on a moving two-year average of actual increases in capital-related costs per discharge for the period three and four years before the fiscal year in question, excluding the portion of the increase attributable to changes in case mix.

(ii) *Effective FY 1996.* Effective FY 1996, the standard Federal rate is updated based on an analytical framework. The framework includes a capital input price index, which measures the annual change in the prices associated with capital-related costs during the year. CMS adjusts the capital input price index rate of change to take into account forecast errors, changes in the case mix index, the effect of changes to DRG classification and relative weights, and allowable changes in the intensity of hospital services.

(2) *Outlier payment adjustment factor.* CMS reduces the updated standard Federal rate by an adjustment factor equal to the estimated additional payments under the Federal rate for outlier cases under subpart F of this part, determined as a proportion of total capital payments under the Federal rate.

(3) *Exceptions payment adjustment factor.* CMS reduces the updated standard Federal rate by an adjustment factor equal to the estimated additional payments for exceptions under §412.348 determined as a proportion of total payments under the hospital-specific rate and Federal rate.

(4) *Budget neutrality adjustment factor.* (i) For FY 1992 through FY 1995, CMS adjusts the updated standard Federal rate by a budget neutrality factor determined under §412.352.

(ii) CMS makes an adjustment to the Federal rate so that estimated aggregate payments for the fiscal year based on the Federal rate after any changes resulting from the annual reclassification and recalibration of the DRG weight in accordance with §412.60(e) and in the geographic adjustment factors described in §412.312(b)(2) equal estimated aggregate payments based on

the Federal rate that would have been made without such changes.

[56 FR 43449, Aug. 30, 1991; 57 FR 3016, Jan. 27, 1992, as amended at 58 FR 46339, Sept. 1, 1993; 59 FR 45399, Sept. 1, 1994; 60 FR 45849, Sept. 1, 1995; 62 FR 46031, Aug. 29, 1997; 67 FR 50113, Aug. 1, 2002]

§412.312 Payment based on the Federal rate.

(a) *General.* The payment amount for each discharge based on the Federal rate determined under §412.308(c) is determined under the following formula: [Federal rate×DRG weight×Geographic adjustment factor×Large urban add-on×(1+Capital disproportionate share adjustment factor + capital indirect medical education adjustment factor)×(for hospitals located in Alaska and Hawaii, a cost-of-living adjustment factor)]+(Any applicable outlier payment).

(b) *Payment adjustments*—(1) *DRG weights.* The relative resource requirements of the discharge are taken into account by applying the DRG weighting factor that is assigned to the discharge under §412.60.

(2) *Geographic adjustment factors*—(i) *Local cost variation.* A geographic adjustment factor is applied that takes into account geographic variation in costs.

(ii) *Large urban add-on.* An additional adjustment is made for hospitals located in a large urban area to reflect the higher costs incurred by hospitals located in those areas. For purposes of the payment adjustment under this paragraph, the definition of large urban area set forth at §412.63(c)(6) continues to be in effect for discharges occurring on or after September 30, 2004.

(iii) *Cost-of-living adjustment.* An additional adjustment is made for hospitals located in Alaska and Hawaii to account for the higher cost-of-living in those States.

(3) *Disproportionate share adjustment.* For hospitals with at least 100 beds located in an urban area and serving low-income patients, a disproportionate share adjustment factor is applied that reflects the higher costs attributable to furnishing services to low income patients.

(4) *Indirect medical education adjustment.* An additional adjustment is made based on the ratio of residents to the average daily patient census of the hospital to account for the indirect costs of medical education.

(c) *Additional payment for outlier cases.* Payment is made for day outlier cases as provided for in §412.82 and for cost outlier cases if both capital-related and operating-related costs exceed the cost outlier threshold as provided for in §412.84.

(d) *Payment for transfer cases.* Payment is made for transfer cases as provided for in §412.4.

(e) *Payment for extraordinary circumstances.* For cost reporting periods beginning on or after October 1, 2001—

(1) Payment for extraordinary circumstances is made as provided for in §412.348(f).

(2) Although no longer independently in effect, the minimum payment levels established under §412.348(c) continue to be used in the calculation of exception payments for extraordinary circumstances, according to the formula in §412.348(f).

(3) Although no longer independently in effect, the offsetting amounts established under §412.348(e) continue to be used in the calculation of exception payments for extraordinary circumstances. However, for cost reporting periods beginning during FY 2005 and subsequent fiscal years, the offsetting amounts in §412.348(e) are determined based on the lesser of—

(i) The preceding 10-year period; or

(ii) The period of time under which the hospital is subject to the prospective payment system for capital-related costs.

[56 FR 43449, Aug. 30, 1991, as amended at 67 FR 50113, Aug. 1, 2002; 69 FR 49250, Aug. 11, 2004; 69 FR 60252, Oct. 7, 2004]

§412.316 Geographic adjustment factors.

(a) *Local cost variation.* CMS adjusts for local cost variation based on the hospital wage index value that is applicable to the hospital under subpart D of this part. The adjustment factor equals the hospital wage index value applicable to the hospital raised to the .6848 power and is applied to 100 percent of the Federal rate.

(b) *Large urban location.* CMS provides an additional payment to a hospital located in a large urban area equal to 3.0 percent of what would otherwise be payable to the hospital based on the Federal rate.

(1) For discharges occurring on or before September 30, 2004, the payment adjustment under this section is based on a hospital's location for the purpose of receiving payment under §412.63(a). The term "large urban area" is defined under §412.63(c)(6).

(2) For discharges occurring on or after October 1, 2004, the definition of large urban area under §412.63(c)(6) continues to be in effect for purposes of the payment adjustment under this section, based on the geographic classification under §412.64, except as provided for in paragraph (b)(3) of this section.

(3) For purposes of this section, the geographic classifications specified under §412.64 apply, except that, effective for discharges occurring on or after October 1, 2006, for an urban hospital that is reclassified as rural as set forth in §412.103, the geographic classification is rural.

(c) *Cost-of-living adjustment.* CMS provides an additional payment to a hospital located in Alaska and Hawaii equal to $[0.3152 \times (\text{the cost-of-living adjustment factor used to determine payments under subpart D of this part} - 1)]$ percent.

[56 FR 43449, Aug. 30, 1991, Aug. 11, 2004, as amended at 69 FR 49250, Aug. 11, 2004; 71 FR 48140, Aug. 18, 2006]

§412.320 Disproportionate share adjustment factor.

(a) *Criteria for classification.* A hospital is classified as a "disproportionate share hospital" for the purposes of capital prospective payments if either of the following conditions is met:

(1) The hospital is located in an urban area, has 100 or more beds as determined in accordance with §412.105(b), and serves low-income patients as determined under §412.106(b).

(i) For discharges occurring on or before September 30, 2004, the payment adjustment under this section is based